



Comptroller of the Currency
Administrator of National Banks

Northeastern District
1114 Avenue of the Americas, Suite 3900
New York, NY 10036-7780

**Conditional Approval #340
December 1999**

November 18, 1999

Ms. Stacie E. McGinn, Esq
Skadden, Arps, Slate, Meagher & Flom LLP
1440 New York Avenue, N.W.
Washington, D.C. 20005-2111

Re: Proposal to merge Commercial and Farmers Bank, Ellicott City, Maryland, with and into Farmers & Mechanics National Bank, Frederick, Maryland, under the title and charter number of the latter.
Control No.: 1999 NE 02 035

Dear Ms. McGinn:

This is to inform you that on November 18, 1999 the Office of the Comptroller of the Currency (OCC) conditionally approved your proposal to merge Commercial and Farmers Bank with and into Farmers & Mechanics National Bank. A copy of the OCC's decision document is enclosed.

This approval is granted based on a thorough review of all information available, including commitments and representations made in the application and the merger agreement and those of your representatives.

This approval is subject to the following condition, Farmers & Mechanics National Bank must establish the legal permissibility of C&F Insurance Agency, Inc., to operate a satellite office in a place of over 5,000, or restructure its activities to bring them into compliance with national banking laws, within two years from the date of consummation of the merger. This condition of approval is a condition "imposed in writing by the agency in connection with the granting of any application or other request" within the meaning of 12 USC 1818. As such, the condition is enforceable under 12 USC 1818. In addition,

please be advised that the principles set forth in the OCC's letter dated November 4, 1996, responding to operating subsidiary notifications filed by First Union Corporation, are applicable.

It is also understood that Farmers & Mechanics National Bank will retain three subsidiaries, Rogers Avenue Realty, Inc., Founders Mortgage Company, Inc., and Central Maryland Service Corporation, which engage in activities permissible for national banks and these activities qualify for an after the fact notice.

As a reminder, the Northeastern District Office must be advised in writing in advance of the desired effective date for the purchase and assumption, so that the OCC may issue the necessary certification letter. The effective date must be after the expiration of the period during which the DOJ may file an injunction to stop the merger, i.e., at least 15 days after the date of this letter and any other required regulatory approval. The OCC will issue a letter certifying consummation of the transaction when we receive a Secretary's Certificate from each institution, certifying that the shareholder approvals have been obtained.

If the merger is not consummated within one year from the approval date, the approval shall automatically terminate, unless the OCC grants an extension of the time period.

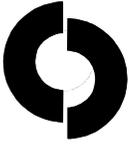
If you have questions, please contact Sandya Reddy, Senior Corporate Analyst at (212) 790-4055.

Sincerely,

/s/

Michael G. Tiscia
Licensing Manager

Enclosure



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DECISION OF THE COMPTROLLER OF THE CURRENCY ON THE APPLICATION TO
MERGE COMMERCIAL AND FARMERS BANK, ELLICOTT CITY, MARYLAND, WITH
AND INTO FARMERS & MECHANICS NATIONAL BANK, FREDERICK, MARYLAND
UNDER THE CHARTER AND THE TITLE OF THE LATTER

Introduction

On October 5, 1999, application was made to the Comptroller of the Currency for prior authorization to merge Commercial and Farmers Bank (hereinafter “CFB”) with and into Farmers and Mechanics National Bank (hereinafter “FMNB”) under the charter and the title of the latter. This application was based on an agreement entered into between the proponents on September 7, 1999.

Participating Financial Institutions

As of June 30, 1999, CFB had total deposits of approximately \$150 million and operated 7 offices. On the same date, FMNB had total deposits of approximately \$984 million and operated 35 offices. FMNB is an interstate national bank with branches in Maryland and Pennsylvania and is wholly owned and controlled by F&M Bancorp, Inc., a multi bank holding company.

Competitive Analysis

The OCC has reviewed the competitive effects of this proposal by using its standard procedures for determining whether a business combination clearly has minimal or no adverse competitive effects. The OCC finds that the proposal satisfies its criteria for a merger that clearly has no or minimal adverse competitive effects.

Banking Factors

The Bank Merger Act requires the OCC to consider “...the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served.” We find that the financial and managerial resources of CFB and FMNB, do

